

Message Text

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PAGE 01 CARACA 03639 252214Z

64

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 INT-08 FEA-02

SCI-06 DRC-01 /174 W

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P 252017Z APR 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 3536

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E.O. 11652: N/A

TAGS: ENRG, EFIN, VE, LAFTA

SUBJECT: SURPRISES EXPECTED IN MAY DAY ADDRESS

REFS: A. CARACAS 3435; B. CARACAS 3331

1. IN TOP OIL COMPANY CIRCLES HERE THERE IS MUCH SPECULATION ABOUT WHAT PRESIDENT PEREZ WILL SAY IN HIS MAY DAY ADDRESS, OR ON APRIL 29 WHEN HE IS SCHEDULED TO ADDRESS CONGRESS ON "ECONOMIC MATTERS." EXPECTATIONS ARE THAT HE WILL ANNOUNCE DRAMATIC NEW MEASURES, DESIGNED TO APPEAL TO POORER CLASSES AND NATIONALISTS, THAT COULD ADVERSELY AFFECT FOREIGN INVESTORS AND BUSINESS COMMUNITY IN GENERAL. OIL COMPANIES DO NOT EXPECT ANY ACTION ON EARLY REVERSION, AND DO NOT THINK THAT MEASURES IN MAY DAY SPEECH WILL NECESSARILY BE AIMED DIRECTLY AT OIL COMPANIES, ALTHOUGH THEY COULD EXPECT TO BE AFFECTED ALONG WITH GENERAL BUSINESS COMMUNITY.

2. NO ONE HAS ANY CLEAR IDEA OF WHAT SPECIFIC MEASURES TO EXPECT, BUT SPECULATION FOCUSES ON: WAGE AND SALARY INCREASES FOR PUBLIC AND PRIVATE SECTOR WORKERS (ALREADY UNDER DISCUSSION BY GOVERN-
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PAGE 02 CARACA 03639 252214Z

MENT); POSSIBLE TAX INCREASES DIRECTED AT AFFLUENT ELEMENTS

OF SOCIETY; DECONTROL OF SOME PRICES; AND ANNOUNCEMENT OF NEW FOREIGN INVESTMENT RULES RELATED TO DECISION 24 OF ANDEAN PACT (WHICH, AS REPORTED REFTEL, COULD FORCE A LARGE NUMBER OF US OWNED FIRMS TO SELL OFF 80 PERCENT OF THEIR SHARES TO VENEZUELANS).

3. MOTIVATION FOR SUCH MEASURES WOULD BE TWOFOLD: AD'S DESIRE TO SEE THAT POORER ELEMENTS OF SOCIETY RECEIVE A FAIRER SHARE OF FRUITS OF PROSPERITY; AND GENERAL VENEZUELAN FEELING OF OVER-CONFIDENCE, ENGENDERED BY RAPIDLY INCREASING OIL WEALTH, WHICH TEMPTS VENEZUELANS TO BELIEVE THAT THEY NO LONGER NEED FOREIGN INVESTMENT BUT CAN ACCOMPLISH WHATEVER THEY WOULD LIKE WITH THEIR OWN RESOURCES.

4. TO EXTENT MAY DAY MEASURES FOCUS ON SOCIAL JUSTICE ISSUES THEY COULD HAVE BENEFICIAL EFFECT ON VENEZUELAN SOCIETY, ESPECIALLY IN TERMS OF REDUCING CLASS TENSIONS AND GIVING POORER ELEMENTS A STAKE IN ECONOMY. CERTAINLY NOTHING IS MORE NEEDED IN VENEZUELA THAN A MORE EQUITABLE TAX SYSTEM. ON OTHER HAND, TO EXTENT THAT MAY DAY MEASURES FOCUS ON NATIONALISM, THEY WILL BE HARMFUL TO VENEZUELA. FORCED DISVESTITURE WOULD STRONGLY DISCOURAGE FUTURE FOREIGN INVESTMENT AND IMPEDE TRANSFER OF NEEDED TECHNOLOGY (WHICH MAINLY ACCOMPANIES DIRECT INVESTMENT), THEREBY SACRIFICING INTERESTS OF ALL VENEZUELANS MERELY TO AFFORD OPPORTUNITY TO LOCAL OBLIGARCHS TO BUY OUT MAJOR SHARES OF FOREIGN BUSINESSES AT FORCED SALE PRICES AND TO CATER TO DESIRE OF SOME POLITICIANS TO SWELL THEIR CHESTS IN NATIONALISTIC PRIDE.

5. FORTUNATELY, THERE WOULD SEEM TO BE GREATER LIKELIHOOD THAT MAY DAY SPEECH WILL FOCUS ON SOCIAL JUSTICE MEASURES THAN ON EXCESSIVELY NATIONALISTIC MEASURES. THERE IS STRONG PRESSURE FOR LATTER FROM SOME ELEMENTS IN AD (LED BY FINMIN HECTOR HURTADO) IN CONTEXT OF IMPLEMENTING DECISION 24, BUT THERE IS ALSO OPPOSITION WITHIN PARTY, AND PRESIDENT PEREZ (WHO IS NEITHER RADICAL NOR EXCESSIVELY NATIONALISTIC) MAY OPT FOR A COURSE OF ACTION THAT WOULD AVOID A SERIOUS BLOW TO FOREIGN INVESTMENT AT THIS TIME. AMBASSADOR HAS BEEN WORKING THROUGH CORDIPLAN HEAD GUMERSINDO RODRIGUEZ (WHO SEEMS TO FAVOR MDOERATION) TO ENCOURAGE VENEZUELAN GOVERNMENT TO AVOID AN EXCESSIVELY NATIONALISTIC POSITION IN IMPLEMENTING DECISION 24 (REFTELS)

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PAGE 03 CARACA 03639 252214Z

AND WILL REPORT RESULTS SEPARATELY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POVERTY, ECONOMIC CONDITIONS, NATIONALIZATION, SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA03639
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740098-0510
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740415/aaaaanci.tel
Line Count: 109
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. CARACAS 3435; B. CARACAS 3331
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by boyleja>; APPROVED <05 FEB 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SURPRISES EXPECTED IN MAY DAY ADDRESS
TAGS: ENRG, EFIN, VE, LAFTA, (PEREZ, CARLOS ANDRES)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005